

April 19, 2012

The Honorable Richard Carlson, Chairperson
House Committee on Taxation
Statehouse, Room 274-W
Topeka, Kansas 66612

Dear Representative Carlson:

SUBJECT: Fiscal Note for HB 2692 by House Committee on Vision 2020

In accordance with KSA 75-3715a, the following fiscal note concerning HB 2692 is respectfully submitted to your committee.

HB 2692 would reduce the percentage of state retail sales and compensating use taxes that is distributed to the State Highway Fund in order to provide a share of the revenue to the State Water Plan Fund. The bill would not affect the amount of state retail sales and compensating use taxes that are currently distributed to the State General Fund. The distribution of state retail sales and compensating use taxes would be set as follows:

<u>Date of</u> <u>Rate Change</u>	<u>Tax Rate</u>	<u>Percent to</u> <u>State General Fund</u>	<u>Percent to</u> <u>State Highway Fund</u>	<u>Percent To</u> <u>State Water Plan Fund</u>
Current law	6.3 %	88.740 %	11.260 %	-- %
July 1, 2012	6.3	88.767	9.646	1.587
July 1, 2013	5.7	81.579	16.667	1.754

The Kansas Water Authority would be required to certify to the State Treasurer on an annual basis, the estimated amount of revenue needed each fiscal year for water related projects, programs, and technical assistance. If in a fiscal year the amount of revenue credited to the State Water Plan Fund exceeds the amount certified by the Kansas Water Authority, then the excess would be transferred to the State Highway Fund. The bill would eliminate the following distribution of fees or transfers to the State Water Plan Fund:

1. The inspection fee from the sale of all commercial fertilizers (amount of the fee would remain unchanged and all revenues would be retained in the Fertilizer Fee Fund);
2. The registration fee for agricultural chemicals (amount of the fee would remain unchanged and all revenues would be retained in the Agricultural Chemical Fee Fund);

3. The reimbursement of expenses from the Sand Royalty Fund (revenues would be retained in the Sand Royalty Fund);
4. The Clean Drinking Water Fee; (amount of the fee would remain unchanged and all revenues would be retained in the State General Fund);
5. The Water Protection Fee would be eliminated;
6. The portion of any money collected from Colorado or Nebraska to resolve disputes arising under the Arkansas River Compact or the Republican River Compact (revenues would be retained in specific water conservation project funds);
7. The annual transfer from the State Economic Development Initiatives Fund would be eliminated; and
8. The annual transfer from the State General Fund would be eliminated.

HB 2692 would decrease state revenues by a net of \$4,627,386 in FY 2013. Of that total, the State General Fund is estimated to increase by \$2,886,375 in FY 2013, the State Highway Fund is estimated to decrease by \$45,321,000 in FY 2013, the State Water Plan Fund is estimated to increase by \$31,294,252 in FY 2013, and several special revenue funds are estimated to increase by a total of \$6,512,987 in FY 2013. The increase in State General Fund revenues and how the April 13, 2012 consensus revenue estimate for FY 2013 would be affected are shown in the following table:

Effect on FY 2012 Consensus Revenue Estimates
(Dollars in Thousands)

Receipt Description	Consensus Revenue Estimates (April 13, 2012)	Change in Revenue FY 2013	Proposed Adjusted CRE FY 2013
Motor Carrier	\$ 21,000	\$ --	\$ 21,000
Income Taxes:			
Individual	3,120,000	--	3,120,000
Corporate	270,000	--	270,000
Financial Institutions	26,000	--	26,000
Excise Taxes:			
Retail Sales	2,225,000	--	2,225,000
Compensating Use	350,000	--	350,000
Cigarette	92,000	--	92,000
Corporate Franchise	6,000	--	6,000
Severance	101,800	--	101,800
All Other Excise Taxes	96,000	--	96,600

Other Taxes	<u>142,000</u>	<u>--</u>	<u>142,000</u>
Total Taxes	\$6,450,400	\$ --	\$6,450,400
Other Revenues:			
Interest	\$ 7,900	\$ --	\$ 7,900
Transfers	(95,600)	--	(95,600)
Agency Earnings	<u>51,500</u>	<u>2,866</u>	<u>55,366</u>
Total Other Revenues	(\$ 36,200)	\$ 2,866	(\$ 33,334)
Total Receipts	\$6,414,200	\$ 2,866	\$6,417,066

The State General Fund would receive \$2,866,000 from the Clean Drinking Water Fee that would no longer be transferred to the State Water Plan Fund beginning in FY 2013. The annual State General Fund transfer to the State Water Plan Fund has currently been suspended for FY 2013 and the bill would make that permanent.

Under current law, the State Water Plan Fund is estimated to receive a total of \$14,199,998 in revenues in FY 2013 from various fees, transfers, and fines. The bill would eliminate the current distribution of fees and transfers that go into the State Water Plan Fund and would create a new funding mechanism that would allow the State Water Plan Fund to receive \$45,321,000 from a portion of state sales and compensating use taxes in FY 2013. It is estimated that the State Water Plan Fund would continue to receive \$173,250 in fines. Therefore, the bill would provide State Water Plan Fund with a total of \$45,494,250 in FY 2013, which is an increase of \$31,294,252 from the current FY 2013 estimate (\$45,494,250 minus \$14,199,998).

The State Highway Fund would receive a corresponding decrease of \$45,321,000 from its reduced share of state sales and compensating use taxes in FY 2013. Reallocating fee revenue that under current law is distributed to the State Water Plan Fund is estimated to increase revenues to various special revenue funds by a total of \$6,512,987 in FY 2013, including \$2.0 million from the annual transfer from the State Economic Development Initiatives Fund that would be retained in that fund, \$3.5 million that would be retained in the Fertilizer Fee Fund, \$941,000 that would be retained in the Agricultural Chemical Fee Fund, and \$71,987 that would be retained in the Sand Royalty Fund. The bill would also eliminate the Water Protection Fee which is expected to generate a total of \$4,627,386 to the State Water Plan Fund in FY 2013.

The Kansas Water Office indicates the bill would restructure revenues to the State Water Plan Fund that could be used for water related projects and technical assistance.

The Department of Revenue indicates the bill would require \$15,000 from the State General Fund in FY 2013 for administrative costs to change forms and to update its computer system to reflect the elimination of the Water Protection Fee. The required programming for this bill by itself would be performed by existing staff of the Department of Revenue. However, if the combined effect of implementing this bill and other enacted legislation exceeds the Department's programming resources, or if the time for implementing the changes is too short,

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expenditures for outside contract programmer services beyond the Department's current budget may be required.

The Kansas Department of Transportation (KDOT) indicates the bill would reduce sales tax revenue dedicated to the State Highway Fund by \$45,321,000 in FY 2013 and by \$47,020,000 in FY 2014. It is estimated that sales tax revenue dedicated to the State Highway Fund would be reduced by a total of \$244,246,000 between FY 2013 and FY 2017. Any fiscal effect associated with HB 2692 is not reflected in *The FY 2013 Governor's Budget Report*.

Sincerely,

A handwritten signature in black ink, appearing to read "Steven J. Anderson", with a long horizontal flourish extending to the right.

Steven J. Anderson, CPA, MBA
Director of the Budget

cc: Steve Neske, Revenue
Ben Cleeves, KDOT
Mark Heim, Agriculture